Hydro Québec

Quarterly Report

Second Quarter 2009

Message from the Chairman of the Board and the President and Chief Executive Officer

Summary of results for the first six months

For the six months ended June 30, 2009, income from continuing operations totaled $1,842 million, compared to $2,049 million for the same period of 2008. The difference is mainly due to the recognition, in June 2008, of a $129-million regulatory asset for revenue variances related to weather conditions in 2006 and 2007. In addition, the more difficult business environment in 2009 resulted in a $46-million increase in bad debt expense.

With regard to discontinued operations, a non-recurring gain of $121 million related to the price adjustment provided for in the contract for the sale of the company's interest in Transelec, in Chile, had been recognized in 2008.

Net income for the first six months therefore amounted to $1,842 million, compared to $2,171 million in 2008.

Second quarter

Net income totaled $435 million in the second quarter of 2009, compared to $721 million in 2008. The decrease is mainly due to the recognition, in June 2008, of a $129-million regulatory asset for revenue variances related to weather conditions in 2006 and 2007. It also stems from the business environment, which has led to an increase in bad debt and lower demand from industrial customers in Québec.

Consolidated results for the first six months

Revenue totaled $6,506 million, compared to $6,731 million in 2008. In Québec, revenue from electricity sales amounted to $5,628 million, a $120-million increase over 2008. Revenue from markets outside Québec totaled $736 million, a decrease of $312 million.

In Québec, the $120-million increase in revenue from electricity sales was mainly the result of colder temperatures in 2009 and the April 1, 2008 and 2009 rate adjustments; these factors were mitigated by a decrease in demand from industrial customers.

On markets outside Québec, the $312-million decrease was attributable to a reduction in Hydro-Québec Production's export revenue because of colder temperatures in Québec during first quarter 2009 and a drop in energy market prices.

Total expenditure amounted to $3,489 million, for an increase of $17 million over 2008. The $117-million decrease in regulatory deferrals, mainly due to the recognition, in June 2008, of a regulatory asset for revenue variances related to weather conditions in 2006 and 2007, was offset by a $40-million decrease in amortization expense and a $30-million decrease in capital tax as a result of a reduction in the tax rate.

Segmented results for the first six months

Generation

Hydro-Québec Production posted net income of $1,306 million for the first six months of 2009, which is comparable to the previous year's amount of $1,343 million.

Revenue from net electricity exports decreased by $262 million. The division also recorded an additional $40-million loss in 2009 on special contracts with large industrial customers in Québec due to the drop in aluminum market prices.

These factors were offset by the positive effect of hedging aluminum prices and the decrease in reservation expenses for capacity on Hydro-Québec TransÉnergie's transmission system, as well as a reduction in amortization expense and capital tax.

Transmission

Hydro-Québec TransÉnergie's net income amounted to $232 million, which is comparable to the $247 million recorded by the division in 2008. Revenue from native load transmission service increased by $23 million, while revenue from point-to-point transmission services provided to Hydro-Québec Production decreased by $25 million. Amortization expense for the regulatory assets in connection with the net costs related to retirement of property, plant and equipment and intangible assets increased by $40 million; this expense was recognized in accordance with the conditions established by the Régie de l'énergie. Capital tax decreased by $9 million.

Distribution

Hydro-Québec Distribution recorded net income of $304 million, compared to $455 million in 2008. This $151-million decrease is mainly due to the recognition, in June 2008, of a $129-million regulatory asset for revenue variances related to weather conditions in 2006 and 2007. It also includes a $40-million increase in bad debt stemming from the more difficult business environment in 2009.

Construction

The Construction segment comprises the operations of Hydro-Québec Équipement and Société d'énergie de la Baie James.

For the first six months of 2009, the volume of activity in this segment totaled $1,044 million, compared to $916 million in 2008. Among the major projects underway are Eastmain-1-A/Sarcelle/Rupert and the 1,250-MW interconnection with Ontario. Hydro-Québec Équipement also continued with engineering and procurement activities to refurbish Gentilly-2 nuclear generating station in Bécancour. In addition, it began work on the Romaine project in May.

Investment

As at June 30, 2009, investments in property, plant and equipment, intangible assets and the Energy Efficiency Plan totaled $1,730 million, compared to $1,567 million in 2008. As anticipated, a large portion of this amount was devoted to the capital projects of Hydro-Québec Production, especially the Eastmain-1-A/Sarcelle/Rupert hydroelectric development.

Hydro-Québec TransÉnergie continued investing in its transmission system to bring new generating facilities onto the grid. It also pursued construction of the interconnection with Ontario, whose first converter was commissioned in June, and carried on work to ensure long-term operability of all its facilities. Hydro-Québec Distribution kept up investments to meet growth in the number of service contracts in Québec, improve service quality and implement the Energy Efficiency Plan.

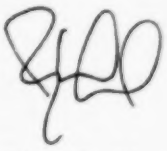
Financing

On June 22, 2009, the issue of variable-rate notes maturing in 2014 raised $1 billion, bringing the total amount of borrowings since the beginning of the year to $2 billion, all completed on the Canadian market.

The proceeds from these borrowings will be used to refinance debt maturing in 2009 and to support the growth of the capital program.

Michael L. Turcotte

Chairman of the Board



Thierry Vandal

President and Chief Executive Officer

August 14, 2009

CONSOLIDATED STATEMENTS OF OPERATIONS

In millions of Canadian dollars
(unaudited)

	Notes	Three months ended June 30		Six months ended June 30	
		2009	2008	**2009**	2008
Revenue		**2,634**	2,960	**6,506**	6,731
Expenditure					
Operations		**650**	629	**1,263**	1,243
Electricity and fuel purchases		**258**	329	**677**	666
Depreciation and amortization	4	**522**	577	**1,112**	1,152
Taxes		**145**	230	**437**	528
Regulatory deferrals		**-**	(116)	**-**	(117)
		1,575	1,649	**3,489**	3,472
Operating income		**1,059**	1,311	**3,017**	3,259
Financial expenses	5	**624**	595	**1,175**	1,210
Income from continuing operations		**435**	716	**1,842**	2,049
Income from discontinued operations	6	**-**	5	**-**	122
Net income		**435**	721	**1,842**	2,171

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

In millions of Canadian dollars
(unaudited)

	Three months ended June 30		Six months ended June 30	
	2009	2008	**2009**	2008
Balance, beginning of period	**17,852**	17,006	**16,445**	15,556
Net income	**435**	721	**1,842**	2,171
Balance, end of period	**18,287**	17,727	**18,287**	17,727

The accompanying notes are an integral part of the consolidated financial statements.

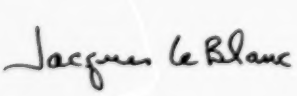
CONSOLIDATED BALANCE SHEETS

In millions of Canadian dollars
(unaudited)

	Notes	As at June 30, 2009	As at December 31, 2008
ASSETS			
Current assets			
Cash and cash equivalents		**2,307**	370
Short-term investments		**965**	3,545
Accounts receivable		**2,078**	1,966
Derivative instruments		**690**	659
Materials, fuel and supplies		**301**	290
		6,341	6,830
Property, plant and equipment		**55,857**	54,987
Investments		**112**	108
Derivative instruments		**1,587**	1,428
Intangible assets		**863**	880
Regulatory assets		**990**	1,167
Other assets		**1,462**	1,374
		67,212	66,774
LIABILITIES			
Current liabilities			
Borrowings		**542**	91
Accounts payable and accrued liabilities		**1,604**	1,948
Dividends payable		**-**	2,252
Accrued interest		**879**	915
Regulatory liabilities		**14**	56
Current portion of long-term debt		**1,229**	770
Derivative instruments		**449**	82
		4,717	6,114
Long-term debt		**36,157**	35,290
Derivative instruments		**1,117**	1,887
Asset retirement obligations		**313**	300
Regulatory liabilities		**-**	6
Other long-term liabilities		**792**	760
Perpetual debt		**337**	355
		43,433	44,712
EQUITY			
Share capital		**4,374**	4,374
Retained earnings		**18,287**	16,445
Accumulated other comprehensive income	7	**1,118**	1,243
		19,405	17,688
		23,779	22,062
		67,212	66,774
Commitments and contingencies	10		

The accompanying notes are an integral part of the consolidated financial statements.

On behalf of the Board of Directors,



Jacques Leblanc
Chair of the Audit Committee

Michael L. Turcotte
Chairman of the Board

CONSOLIDATED STATEMENTS OF CASH FLOWS

In millions of Canadian dollars
(unaudited)

	Notes	Three months ended June 30		Six months ended June 30	
		2009	2008	**2009**	2008
Operating activities					
Net income		**435**	721	**1,842**	2,171
Income from discontinued operations	6	**-**	(5)	**-**	(122)
Income from continuing operations		**435**	716	**1,842**	2,049
Adjustments					
Depreciation and amortization	4	**522**	577	**1,112**	1,152
Amortization of debt premiums, discounts and issue expenses	5	**29**	33	**61**	62
Difference between contributions paid and pension cost		**(68)**	(70)	**(121)**	(84)
Regulatory deferrals		**-**	(116)	**-**	(117)
Other		**53**	47	**2**	36
Change in non-cash working capital items	8	**792**	659	**(468)**	(686)
		1,763	1,846	**2,428**	2,412
Investing activities					
Property, plant and equipment and intangible assets		**(993)**	(883)	**(1,651)**	(1,493)
Investments		**2**	6	**2**	62
(Acquisition) disposal of an interest, net of cash and cash equivalents (acquired) divested		**-**	148	**(17)**	148
Costs related to Energy Efficiency Plan		**(48)**	(43)	**(79)**	(74)
Net disposal of short-term investments		**802**	513	**2,581**	2,339
		(237)	(259)	**836**	982
Financing activities					
Issuance of long-term debt		**997**	1,017	**2,029**	1,517
Repayment of long-term debt		**(203)**	(68)	**(205)**	(1,209)
Inflows resulting from credit risk management		**275**	150	**620**	225
Outflows resulting from credit risk management		**(1,640)**	-	**(1,940)**	-
Net change in short-term borrowings		**346**	(400)	**427**	13
Dividends paid		**-**	(723)	**(2,252)**	(2,095)
Other		**-**	1	**(1)**	-
		(225)	(23)	**(1,322)**	(1,549)
Foreign currency effect on cash and cash equivalents		**(8)**	(5)	**(5)**	(2)
Cash flows from continuing operations		**1,293**	1,559	**1,937**	1,843
Cash flows from discontinued operations		**-**	(1)	**-**	(1)
Net change in cash and cash equivalents		**1,293**	1,558	**1,937**	1,842
Cash and cash equivalents, beginning of period		**1,014**	338	**370**	54
Cash and cash equivalents, end of period		**2,307**	1,896	**2,307**	1,896
Supplementary cash flow information	8				

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

In millions of Canadian dollars
(unaudited)

	Three months ended June 30		Six months ended June 30	
	2009	2008	**2009**	2008
Net income	**435**	721	**1,842**	2,171
Other comprehensive income				
Change in deferred gains (losses) on items designated as cash flow hedges	**38**	(512)	**102**	(527)
Reclassification to operations of deferred gains on items designated as cash flow hedges	**(111)**	(17)	**(227)**	(74)
	(73)	(529)	**(125)**	(601)
Other	**-**	-	**-**	3
Comprehensive income	**362**	192	**1,717**	1,573

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

For the three- and six-month periods ended June 30, 2009 and 2008

Amounts in tables are in millions of Canadian dollars, unless otherwise indicated.

Note 1 - Basis of Presentation

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and reflect the decisions of the Régie de l'énergie (the "Régie"). These decisions affect the timing of the recognition of certain transactions in consolidated operations, resulting in the recognition of regulatory assets and liabilities, which Hydro-Québec considers it is likely to recover or settle subsequently through the rate-setting process. The quarterly consolidated financial statements, including the present Notes, do not contain all the required information regarding the audited annual consolidated financial statements and should therefore be read in conjunction with the Consolidated Financial Statements and accompanying Notes in Hydro-Québec's *Annual Report 2008*.

The accounting policies used to prepare the quarterly consolidated financial statements conform to those presented in Hydro-Québec's *Annual Report 2008*, except as regards the changes in accounting policies described in Notes 2 and 3.

Hydro-Québec's quarterly results are not necessarily indicative of results for the year on account of seasonal temperature fluctuations. Because of higher electricity demand during winter months, revenue from electricity sales in Québec is higher during the first and fourth quarters.

Note 2 - Changes in Accounting Policies

Recent Changes

2009

Goodwill and Intangible Assets

On January 1, 2009, Hydro-Québec adopted the recommendations of Section 3064 of the *Canadian Institute of Chartered Accountants (CICA) Handbook*, "Goodwill and Intangible Assets," which superseded Section 3062, "Goodwill and Other Intangible Assets," and Section 3450, "Research and Development Costs." Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The adoption of these recommendations had no material impact on the consolidated financial statements.

Rate-Regulated Activities

On January 1, 2009, the temporary exemption provided for in *CICA Handbook* Section 1100, "Generally Accepted Accounting Principles," which allowed the recognition and measurement of regulatory assets and liabilities, was withdrawn. However, based on *Statement of Financial Accounting Standard (SFAS)* No. 71, "Accounting for the Effects of Certain Types of Regulation," issued by the U.S. Financial Accounting Standards Board (FASB), Hydro-Québec is maintaining the current accounting treatment for regulatory assets and liabilities, pursuant to a practice allowed by Canadian GAAP. The withdrawal of the exemption therefore had no impact on the consolidated financial statements.

Credit Risk and Fair Value of Financial Assets and Financial Liabilities

On January 20, 2009, the Emerging Issues Committee (EIC) of the CICA released *Abstract of Issue Discussed EIC-173*, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities." EIC-173 clarifies that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. The adoption of the recommendations in this abstract had no impact on the consolidated financial statements.

Note 2 - Changes in Accounting Policies (continued)

Future Changes

Financial Instruments – Disclosures

In June 2009, the CICA amended *CICA Handbook* Section 3862, "Financial Instruments – Disclosures." The purpose of the amendments is to improve disclosures about fair value measurements and liquidity risk related to financial instruments. They will apply to annual financial statements relating to fiscal years ending after September 30, 2009.

Business Combinations

In January 2009, the CICA issued Section 1582, "Business Combinations," which superseded Section 1581, "Business Combinations." Section 1582 establishes the principles and requirements for how the acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. It will apply prospectively to business combinations for which the acquisition date is in a fiscal year beginning on or after January 1, 2011. However, early adoption is permitted.

Consolidated Financial Statements and Non-Controlling Interests

In January 2009, the CICA issued Section 1601, "Consolidated Financial Statements," and Section 1602, "Non-Controlling Interests," which superseded Section 1600, "Consolidated Financial Statements." Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These sections will apply to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. However, early adoption is permitted as of the beginning of a fiscal year.

International Financial Reporting Standards

On February 13, 2008, the Canadian Accounting Standards Board (AcSB) confirmed that the complete changeover to International Financial Reporting Standards (IFRS) would take effect for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Hydro-Québec is currently examining the issues involved in the changeover from Canadian GAAP to IFRS.

Note 3 - Effect of Rate Regulation on the Consolidated Financial Statements

TRANSMISSION

In decision D-2009-023 of March 17, 2009, the Régie set Hydro-Québec's power transmission rates effective January 1, 2009. The new rates take into account a 7.65% return on the rate base, assuming a capitalization with 30% equity.

DISTRIBUTION

In decision D-2009-021 of March 16, 2009, the Régie granted an across-the-board increase of 1.22% in Hydro-Québec's electricity rates, effective April 1, 2009. This increase takes into account a 7.42% return on the rate base in 2009, assuming a capitalization with 35% equity.

In these decisions, the Régie accepted the Distributor's and the Transmission Provider's proposal to recognize net costs related to the retirement of property, plant and equipment and intangible assets in the statement of operations for the year in which they are incurred. The balance of the related account as at December 31, 2008, will therefore be expensed in 2009. An amortization expense of $58 million was recorded in this regard for the three months ended June 30, 2009, and of $111 million for the six months ended June 30, 2009.

Note 4 - Depreciation and Amortization

	Three months ended June 30		Six months ended June 30	
	2009	2008	**2009**	2008
Property, plant and equipment [a]	**383**	473	**836**	947
Intangible assets	**29**	30	**61**	59
Regulatory assets and liabilities	**108**	72	**210**	142
Deferred charges	**-**	2	**-**	4
Projects written off	**2**	-	**5**	-
	522	577	**1,112**	1,152

a) The revision of the useful life of property, plant and equipment, most of which is used for hydraulic generation, gave rise to a $78-million decrease in the depreciation and amortization expense for the three months ended June 30, 2009 ($2-million increase in 2008) and a $72-million decrease for the six months ended June 30, 2009 ($4-million increase in 2008). As a result of the revision, the maximum amortization period for some property, plant and equipment used for hydraulic generation has increased from 50 to 100 years.

Note 5 - Financial Expenses

	Three months ended June 30		Six months ended June 30	
	2009	2008	**2009**	2008
Interest				
Interest on debt securities	**611**	614	**1,187**	1,234
Amortization of debt premiums, discounts and issue expenses	**29**	33	**61**	62
	640	647	**1,248**	1,296
Net exchange loss	**21**	2	**14**	22
Loan guarantee fees	**43**	42	**87**	84
	64	44	**101**	106
Less				
Capitalized financial expenses	**77**	80	**153**	147
Net investment income	**3**	16	**21**	45
	80	96	**174**	192
	624	595	**1,175**	1,210

Note 6 - Discontinued Operations

In the first quarter of 2008, Hydro-Québec recognized a gain of $117 million, net of $25 million in related income taxes, for the price adjustment provided for in the contract for the sale of its interest in HQI Transelec Chile S.A. (Transelec). This adjustment was made following the ministerial order issued on January 15, 2008, establishing the value of the regulated trunk transmission asset base of Transelec.

In the second quarter of 2008, an additional gain of $4 million, net of $1 million of related income taxes, was added to the above-mentioned price adjustment, for a section of the transmission system that had been excluded from the amount recognized in the first quarter of 2008. The agreement establishing the additional adjustment was dependent on a condition met on April 29, 2008.

Note 7 - Accumulated Other Comprehensive Income

	As at June 30 2009		
	Cash flow hedges	Other	Total
Balance, beginning of period	1,243	-	**1,243**
Changes during the period	(125)	-	**(125)**
Balance, end of period	1,118	-	**1,118**

	As at June 30 2008		
	Cash flow hedges	Other	Total
Balance, beginning of period	965	(3)	962
Changes during the period	(601)	3	(598)
Balance, end of period	364	-	364

Note 8 - Supplementary Cash Flow Information

	Three months ended June 30		Six months ended June 30	
	2009	2008	**2009**	2008
Change in non-cash working capital items				
Accounts receivable	**547**	497	**(132)**	(306)
Materials, fuel and supplies	**(34)**	(4)	**(18)**	(22)
Accounts payable and accrued liabilities	**(76)**	(196)	**(287)**	(315)
Accrued interest	**355**	362	**(31)**	(43)
	792	659	**(468)**	(686)
Investing activities not affecting cash				
Increase in property, plant and equipment and intangible assets	**72**	8	**88**	20
Interest paid	**176**	143	**1,105**	1,067

Note 9 - Employee Future Benefits

	Three months ended June 30			
	Pension Plan		Other plans	
	2009	2008	**2009**	2008
Accrued benefit cost recognized	**13**	36	**27**	26

	Six months ended June 30			
	Pension Plan		Other plans	
	2009	2008	**2009**	2008
Accrued benefit cost recognized	**27**	80	**53**	52

Note 10 - Commitments and Contingencies

Guarantees

As at June 30, 2009, the potential maximum amount Hydro-Québec could have had to pay under letters of credit or guarantees provided as security totaled $388 million. Of this amount, $311 million was related to energy purchases. Guarantees amounting to $131 million will expire between 2009 and 2019, while others totaling $257 million do not have maturity dates.

Hydro-Québec provided guarantees to the purchasers of its interests with respect to contingent tax liabilities and certain other customary representations. These guarantees, for which no liability was recognized, will be in effect until the applicable limitation periods expire.

Note 11 - Segmented Information

The following tables contain information related to operations and assets by segment:

Three months ended
June 30, 2009

	Generation	Transmission	Distribution	Construction	Corporate and Other Activities	Intersegment eliminations and adjustments	Total
Revenue							
External customers	304	17	2,303	-	8	2 [a]	**2,634**
Intersegment	1,031	696	16	649	293	(2,685)	-
Income (loss) from continuing operations	438	104	(113)	1	4	1	**435**
Net income (loss)	438	104	(113)	1	4	1	**435**
Total assets as at June 30, 2009	31,426	17,342	12,048	410	6,324	(338)	**67,212**

Three months ended
June 30, 2008

	Generation	Transmission	Distribution	Construction	Corporate and Other Activities	Intersegment eliminations and adjustments	Total
Revenue							
External customers	550	13	2,382	-	7	8 [a]	2,960
Intersegment	1,108	687	15	571	291	(2,672)	-
Income from continuing operations [b]	481	128	102	1	1	3	716
Net income [b]	481	128	102	1	6	3	721
Total assets as at June 30, 2008	30,092	16,824	11,906	316	5,838	(357)	64,619

a) Resales of excess supply by Hydro-Québec Distribution on outside markets are presented as offsets of electricity purchases rather than in Revenue.

b) In 2009, Hydro-Québec revised its method for allocating financial expenses. Figures for 2008 have been reclassified to conform to the presentation adopted in the current year.

Note 11 - Segmented Information (continued)

Six months ended
June 30, 2009

	Generation	Transmission	Distribution	Construction	Corporate and Other Activities	Intersegment eliminations and adjustments	Total
Revenue							
External customers	791	28	5,674	-	10	3 [a]	**6,506**
Intersegment	2,555	1,398	34	1,044	567	(5,598)	-
Income (loss) from continuing operations	1,306	232	304	-	(5)	5	**1,842**
Net income (loss)	1,306	232	304	-	(5)	5	**1,842**
Total assets as at June 30, 2009	31,426	17,342	12,048	410	6,324	(338)	**67,212**

Six months ended
June 30, 2008

	Generation	Transmission	Distribution	Construction	Corporate and Other Activities	Intersegment eliminations and adjustments	Total
Revenue							
External customers	1,128	24	5,558	-	13	8 [a]	6,731
Intersegment	2,599	1,381	30	916	569	(5,495)	-
Income (loss) from continuing operations [b]	1,343	247	455	1	(3)	6	2,049
Net income [b]	1,343	247	455	1	119	6	2,171
Total assets as at June 30, 2008	30,092	16,824	11,906	316	5,838	(357)	64,619

a) Resales of excess supply by Hydro-Québec Distribution on outside markets are presented as offsets of electricity purchases rather than in Revenue.

b) In 2009, Hydro-Québec revised its method for allocating financial expenses. Figures for 2008 have been reclassified to conform to the presentation adopted in the current year.

Note 12 - Comparative Data

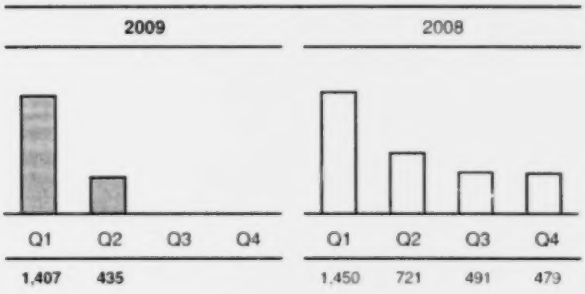
Some of the figures for the corresponding period of the previous year have been reclassified to conform to the presentation adopted in the current year.

CONSOLIDATED FINANCIAL HIGHLIGHTS

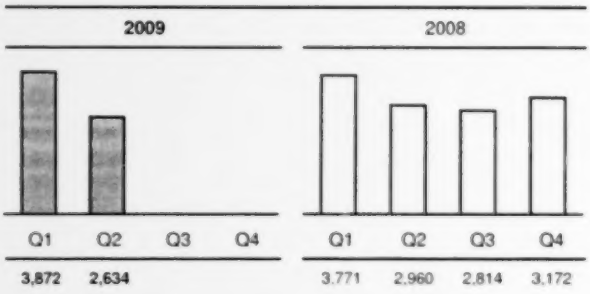
In millions of Canadian dollars
(unaudited)

Summary of Operations	Three months ended June 30				Six months ended June 30			
	2009	2008	Change (%)		**2009**	2008	Change (%)	
Revenue	**2,634**	2,960	11.0	↓	**6,506**	6,731	3.3	↓
Expenditure	**1,575**	1,649	4.5	↓	**3,489**	3,472	0.5	↑
Financial expenses	**624**	595	4.9	↑	**1,175**	1,210	2.9	↓
Discontinued operations	**-**	5	100.0	↓	**-**	122	100.0	↓
Net income	**435**	721	39.7	↓	**1,842**	2,171	15.2	↓

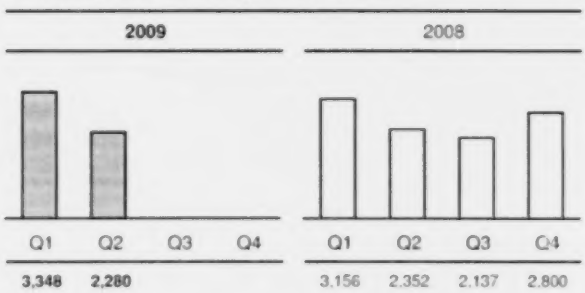
Net Income



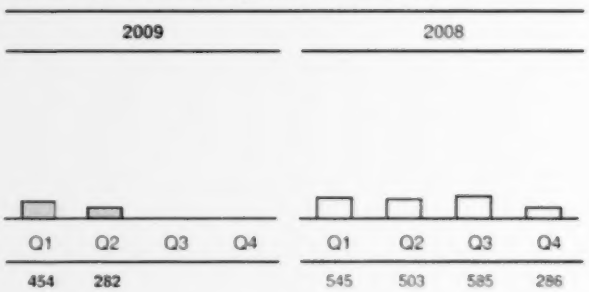
Revenue



Revenue from Electricity Sales in Québec



Revenue from Electricity Sales Outside Québec



Quarter Highlights

Generation

Romaine project

Construction on the Romaine project, north of Havre-Saint-Pierre, officially began on May 13 and will continue until 2020. This $6.5-billion project involves the construction of four hydroelectric generating stations with a total installed capacity of 1,550 MW as well as a 150-km permanent road. The facilities will have an annual average output of 8 TWh, equivalent to the consumption of more than 450,000 Québec households. Between 2012 and 2016, the peak workforce will exceed 2,000 workers. The project will generate economic spinoffs of approximately $3.5 billion in Québec, including about $1.3 billion for the Côte-Nord region.

The Romaine project is being carried out in cooperation with the local and regional communities concerned. Various mitigation and compensation measures will be implemented to minimize the project's ecological footprint and allow land users to pursue their activities. The project will also include an extensive program of environmental follow-up until 2040.

Transmission

Abitibi substation – Synchronous compensators

On May 25, the Régie de l'énergie authorized the overhaul and upgrading of the synchronous compensators and their auxiliary systems at Abitibi substation (735 kV). The project will cost $71.3 million, and the equipment is scheduled for commissioning in 2010 and 2011.

Interconnection with Ontario

On June 30, the new interconnection with Ontario (1,250 MW) was partially commissioned at 315/230-kV Outaouais substation. With the startup of the first of two converters, the interconnection can transfer up to 625 MW of power.

Distribution

Calls for tenders – 125 MW of biomass and 500 MW of wind power

On April 14, Hydro-Québec Distribution issued a call for 125 MW of power generated in Québec by new biomass cogeneration plants. Biomass must account for at least 75% of the fuel used to generate the power.

On April 30, Hydro-Québec Distribution issued a call for two 250-MW blocks of Québec-generated wind power, one reserved for Aboriginal communities' projects and one for other communities' projects. Like the previous call, this tender call is designed to meet long-term power needs in Québec. Projects must not exceed 25 MW in capacity. They must have a minimum Québec content, and a certain percentage of the cost must be incurred in the regional county municipality of Matane or the Gaspésie–Îles-de-la-Madeleine administrative region.

Technological innovation

Electric vehicle

On June 9, Hydro-Québec and Ford Motor Company announced that Hydro-Québec has joined a North America–wide demonstration program for the Ford Escape Plug-In Hybrid. Set up by Ford in conjunction with the Electric Power Research Institute, this three-year program is designed to develop and evaluate technical approaches for integrating plug-in hybrids into the power grid. Hydro-Québec is the only Canadian company participating in the program. The consumption of the Ford Escape Plug-In Hybrid with lithium-ion battery can be as low as 2 L/100 km (120 mpg).

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